

KT&G

Reference Material

For the 37th Annual General Meeting of Shareholders

The 37th Annual General Meeting of Shareholders

KT&G Corporation will hold its 37th Annual General Meeting of Shareholders as follows :

Date and Time Thursday, March 28th, 2024 10:00am (KST)

Place Vision Hall, KT&G Human Resources Development Institute, 71, Beotkkot-gil, Daedeok-gu, Daejeon, Republic of Korea

Agenda Items

1. Matters to Report	Reporting 1	Audit Report
	Reporting 2	Business Report
	Reporting 3	Internal Accounting Control System Operation Status Evaluation Report
2. Matters for Approval	Item 1	Approval of Financial Statements and Statements of Appropriation of Retained Earnings for the 37th Fiscal Year
	Item 2	Partial Amendments to the Articles of Incorporation
	Item 2-1	Addition of Business Purposes
	Item 2-2	Alignment of Provisions Including Incorporation of Certain Amendments to the Korean Commercial Code
	Item 2-3	Transfer of Authority to Recommend/Propose Dismissal of Inside Directors
	Item 2-4	Improvement of the Composition and Operation of the President Candidate Recommendation Committee
	Item 2-5	Improvement of the Composition of Committees within the Board of Directors
	Item 2-6	Amendment Regarding the Dividend Record Date
	Item 3	Appointment of Two (2) Directors (cumulative voting requested by Agnes, etc.)
	Item 3-1	Appointment of Kyung-Man Bang as President/Representative Director (Proposal by KT&G's Board of Directors)
	Item 3-2	Appointment of Min-Kyu Lim as Outside Director (Proposal by KT&G's Board of Directors)
	Item 3-3	Appointment of Dong-Hwan Shon as Outside Director (Shareholder Proposal by Industrial Bank of Korea)
	Item 3-4	Appointment of Sang-Hyun Lee as Outside Director (Shareholder Proposal by Agnes) ⇒ Abandoned as candidate withdrew himself from candidacy
	Item 4	Appointment of Outside Director Who Will Also Serve as an Audit Committee Member (Sang-Wook Kwak)
	Item 5	Approval of Cap on Remunerations for Directors

Greetings. I am Min-Kyu Lim, the Chair of the KT&G Board of Directors.

On behalf of the Company's Board of Directors, I extend my deepest gratitude to our shareholders who have always shown great interest and affection for our Company. As we approach the 37th Annual General Meeting of Shareholders, I would like to provide an overview of the Company's key updates and address topics of interest for our shareholders.

Enhancement of Fairness, Impartiality, and Transparency in the CEO Nomination Process

To improve the fairness and impartiality of the CEO nomination process, the Company revised its relevant regulations at the end of last year to ensure the CEO nomination and governance-related committees are 100% composed and operated by outside directors. We have secured a wide pool of candidates by receiving recommendations from professional agencies and engaging in an open recruitment process to select the optimal CEO candidate. After an extensive two-month review on the 24 internal and external candidates taking into account the external advisory panel's input, Kyung-Man Bang, currently inside director and COO at the Company, has been selected as the ideal candidate to steer the Company.

Strengthening the Independence of the Board of Directors

In April 2023, KT&G's Board restructured the composition of its sub-committees to enhance their independence. As a result, five out of seven committees are composed entirely of outside directors, strengthening the Board's independence in managing and supervising the executive team. In August 2023, the Board publicly announced that it adopted the Board Independence and Diversity Policy in compliance with laws and regulations, further demonstrating its will to enhance independence.

Enhancing the Expertise of the Board

KT&G was one of the first domestic companies to introduce the Board Skills Matrix (BSM) in 2022 and has since refined it to reflect the company's mid-to long-term strategic direction and global standards. The Independent Non-Executive Director Candidate Recommendation Committee utilizes the BSM in searching for and recommending outside director candidates, thereby enhancing the Board's expertise. The Company plans to review the BSM every two years to reflect changes in the business environment, including opinions from the capital market.

Strengthening Oversight of Business Activities

The Board is continuously monitoring and fine-tuning the timing and scale of the growth investment that the Company is ambitiously undertaking to maximize its efficiency and effectiveness. The Board also continues to advise the Company on enhancing the efficiency of its financial structure and plans to continue supervising to unlock corporate value.

The KT&G Board of Directors will continue to exert our utmost efforts to ensure that KT&G can leap forward as a more robust and transparent corporation through active checks and balances on management, vigilant supervision, and constructive suggestions. Once again, I deeply thank our shareholders for your great interest and affection towards KT&G's continuous growth, and I humbly ask for your unwavering support and trust in KT&G going forward. Thank you.

Chair of the Board
Min-Kyu Lim

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PART 1

Agenda Items for the 37th AGM

(Item 1) Approval of Financial Statements and Statement of Appropriation of Retained Earnings for the 37th Fiscal Year

(Item 2) Partial Amendments to the Articles of Incorporation

- 2-1 : Addition of Business Purposes
- 2-2 : Alignment of Provisions Including Incorporation of Certain Amendments to the Korean Commercial Code
- 2-3 : Transfer of Authority to Recommend/Propose Dismissal of Inside Directors
- 2-4 : Improvement of the Composition and Operation of the President Candidate Recommendation Committee
- 2-5 : Improvement of the Composition of Committees within the Board of Directors
- 2-6 : Amendment Regarding the Dividend Record Date

(Item 3) Appointment of Two (2) Directors (cumulative voting requested by Agnes, etc.)

- 3-1 : Appointment of Kyung-Man Bang as President/Representative Director (Proposal by KT&G BOD)
- 3-2 : Appointment of Min-Kyu Lim as Outside Director (Proposal by KT&G BOD)
- 3-3 : Appointment of Dong-Hwan Shon as Outside Director (Shareholder Proposal by Industrial Bank of Korea)
- 3-4 : Appointment of Sang-Hyun Lee as Outside Director (Shareholder Proposal by Agnes)
⇒ Abandoned as candidate withdrew himself from candidacy

(Item 4) Appointment of Outside Director Who Will Also Serve as an Audit Committee Member (Sang-Wook Kwak)

(Item 5) Approval of Cap on Remunerations for Directors

Summary of Agendas for the 37th AGM

The KT&G's Board of Directors proposes the following agenda items for the 37th AGM, and asks [shareholders to vote as per KT&G Board Recommendations](#) to enhance shareholder value and the Company's sustainability. Please refer to the contents of this document for the details on the agenda items.

	Agenda Items	KT&G Board or Shareholder Proposal	KT&G Board Recommendation	Reference
Item 1	Approval of Financial Statements and Statement of Appropriation of Retained Earnings for the 37th Fiscal Year	KT&G BOD	FOR	7~13
	Partial Amendments to the Articles of Incorporation			14~21
Item 2	Item 2-1 Addition of Business Purposes	KT&G BOD	FOR	15
	Item 2-2 Alignment of Provisions Including Incorporation of Certain Amendments to the Korean Commercial Code	KT&G BOD	FOR	15~17
	Item 2-3 Transfer of Authority to Recommend/Propose Dismissal of Inside Directors	KT&G BOD	FOR	18, 21
	Item 2-4 Improvement of the Composition and Operation of the President Candidate Recommendation Committee	KT&G BOD	FOR	18~19, 21
	Item 2-5 Improvement of the Composition of Committees within the Board of Directors	KT&G BOD	FOR	20, 21
	Item 2-6 Amendment Regarding the Dividend Record Date	KT&G BOD	FOR	20
	Appointment of Two (2) Directors (cumulative voting requested by Agnes, etc.)			22~30
Item 3	Item 3-1 Appointment of Kyung-Man Bang as President/Representative Director (Proposal by KT&G's Board of Directors)	KT&G BOD	FOR	22, 23~25
	Item 3-2 Appointment of Min-Kyu Lim as Outside Director (Proposal by KT&G's Board of Directors)	KT&G BOD	FOR	22, 26~29
	Item 3-3 Appointment of Dong-Hwan Shon as Outside Director (Shareholder Proposal_by Industrial Bank of Korea)	Industrial Bank of Korea	AGAINST	22, 30
	Item 3-4 Appointment of Sang-Hyun Lee as Outside Director (Shareholder Proposal_by Agnes)	Agnes	Item Abandoned	* candidate withdrawal
Item 4	Appointment of Outside Director Who Will Also Serve as an Audit Committee Member (Sang-Wook Kwak)	KT&G BOD	FOR	31
Item 5	Approval of Cap on Remunerations for Directors	KT&G BOD	FOR	32~33

We ask **shareholders to approve** the consolidated and separate financial statements and the statement of appropriation of retained earnings for the 37th fiscal year (January 1, 2023 to December 31, 2023) that **received an unqualified opinion from the external auditor** upon audit.

Summary of Consolidated Profit and Loss

(unit: KRW 100 million)

	2023	2022
Revenue	58,626	58,514
Operating Profit	11,673	12,676
Net income	9,224	10,053

Dividend per Share

(unit: KRW)

	2023	2022
Interim	1,200	-
Year-end	4,000	5,000
Total	5,200	5,000

Reduction/Appropriation of Retained Earnings

(unit: KRW 100 million)

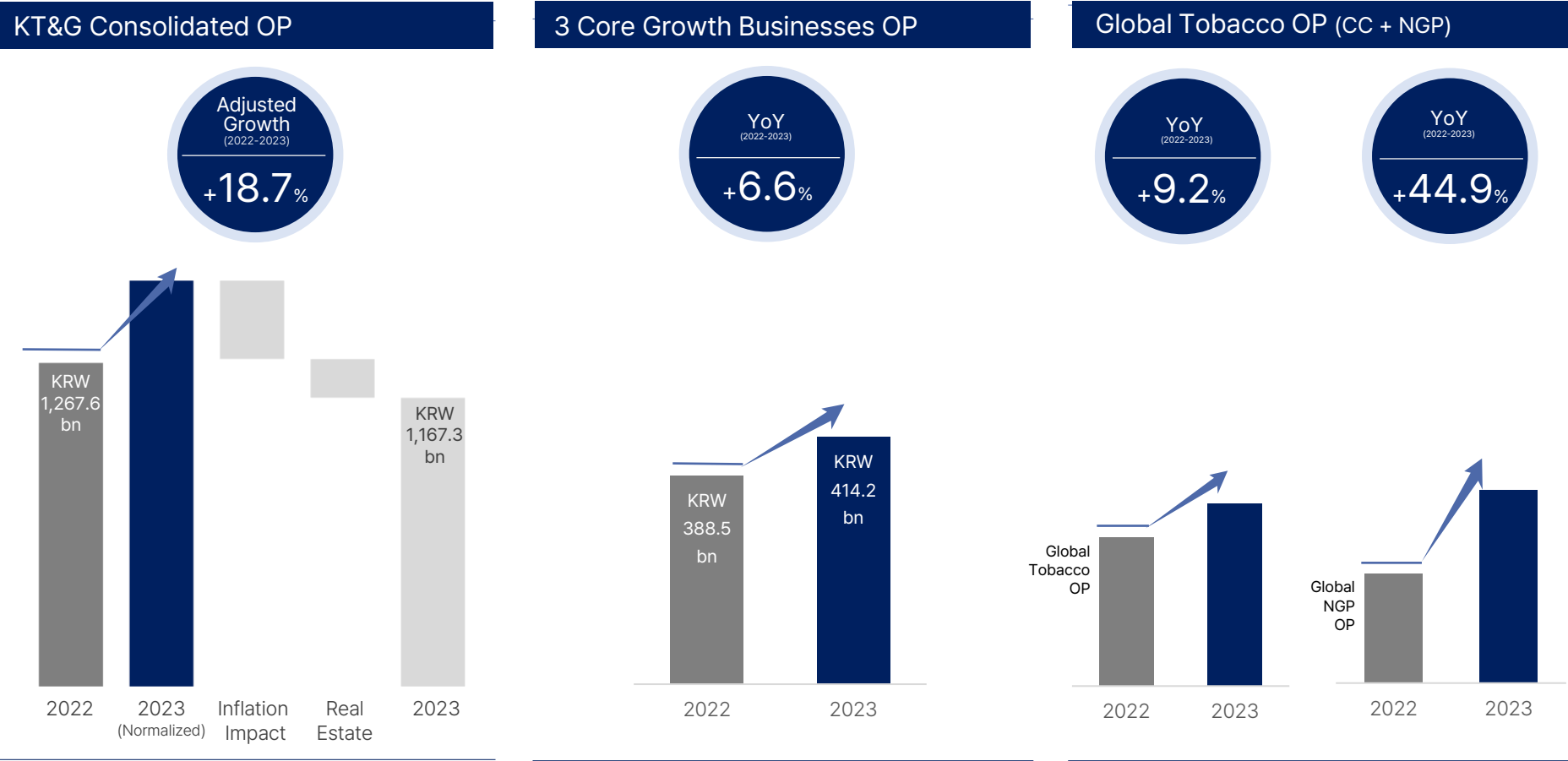
	2023	2022
Cancellation of Treasury Shares	3,027	-
Interim Dividends	1,395	-
Year-end Dividends	4,512	5,814

Audit Report

- The audit report on the consolidated and separate financial statements received an unqualified opinion on March 4, 2024, and the audit report has been disclosed on the electronic disclosure system and the company's website.
- Audit Report Directory
 - Electronic Disclosure System (<https://dart.fss.or.kr>) > Submission of Audit Report
 - Company Website (<https://www.ktng.com>) > Investor Relations > Audit Report
 - Korean: <https://www.ktng.com/report?cmsCd=CM0013>
 - English: <https://en.ktng.com/report?cmsCd=CM0043>
(disclosure timeline to be further advised)

[Reference] Key Financial Performance in 2023

In '23, KT&G's consolidated operating profit recorded KRW 1.1673 trn, and the **adjusted operating profit**, which excludes global inflation and one-off impacts such as completion of large-scale real-estate development projects, **grew by 18.7%** compared to the previous year. Especially, **the operating profit of its 3 core growth businesses (NGP, Global CC, HFF) grew by 6.6%**, and **the operating profit of the global tobacco business increased by 9.2%**, demonstrating the company's potential to expand profitability in the future.

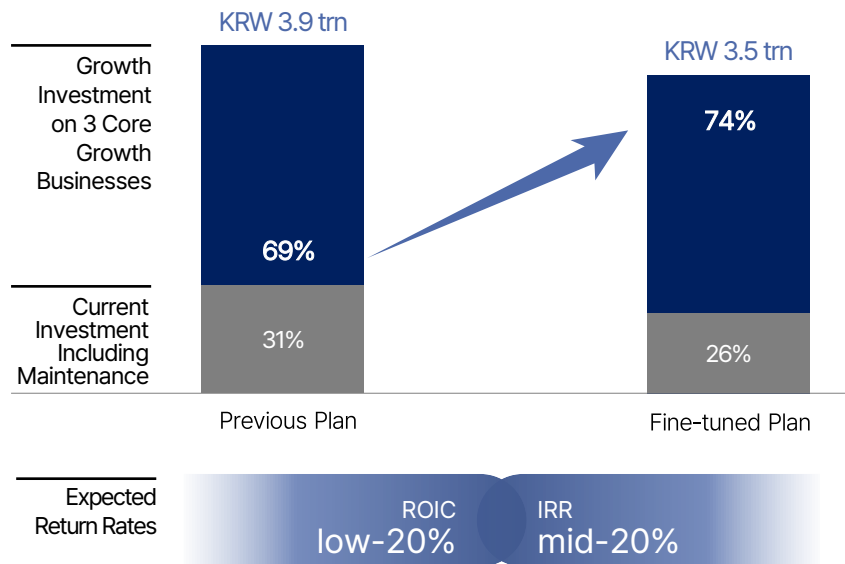


* During the Value Day on November 2023, the Company announced that it will focus on securing growth momentum behind its 3 core growth businesses

KT&G has **improved its capital allocation policies** by fine-tuning the growth investment plan, utilizing leverage via issuing AAA corporate bonds, and expanding shareholder returns. We will continue to maximize corporate value as we bring more efficiency and improvements behind capital allocation.

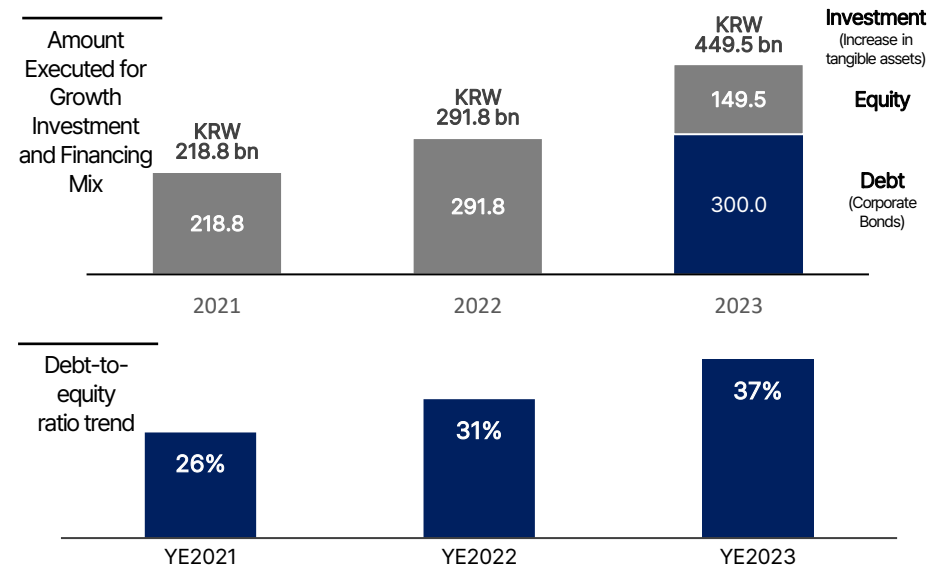
Fine-tuning of the Growth Investment

- The Board of Directors has been leading the efforts to maximize the efficiency and effectiveness of the growth investment plan, continuously monitoring and fine-tuning its timing and scale.
 - Scale and proportion of the investment has been revised, with 3 core growth businesses accounting for 74% of total amount



Strengthening Financial Structure Efficiency

- Following the Board's recommendation, the company has actively started to utilize debt to fund growth investments, thereby enhancing the efficiency of capital operations.
- Establishing a financial structure that can maximize corporate value by utilizing an adequate amount of financial leverage.



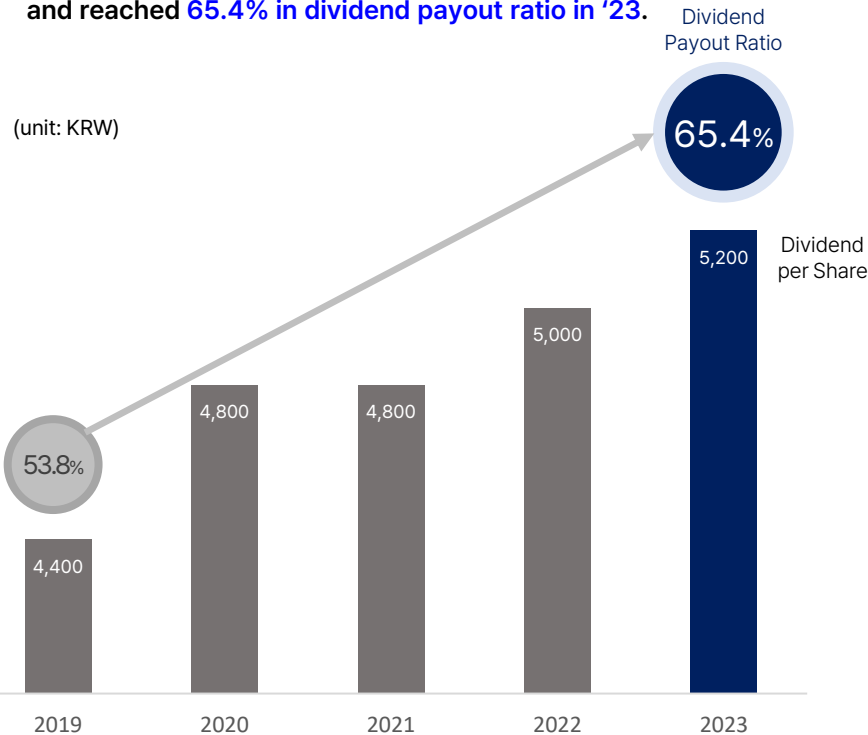
[Reference] Best-in-Class Shareholder Return Performance

KT&G announced a mid-to-long-term shareholder return plan of total KRW 2.75 trn to increase predictability and unlock shareholder value, and through faithful execution of the plan in the past 3 years, we have achieved one of the highest total shareholder return rates (99% in '23) both domestically and internationally.

*Note on Total Shareholder Return Rate: (Total dividends + Treasury stock purchases) / Net income attributable to owners of the parent company on a consolidated basis

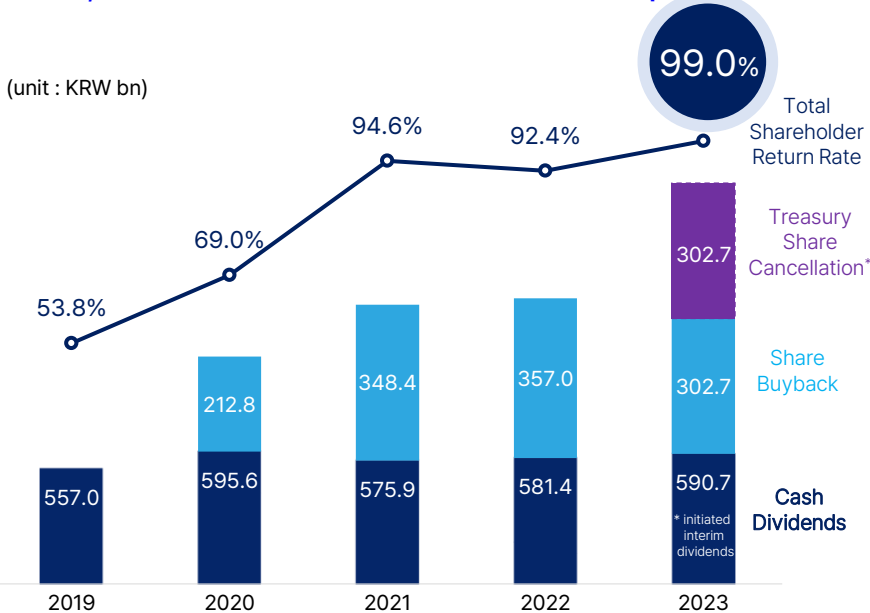
Dividend Payout Ratio

- We have continuously increased dividend per share since IPO, and reached 65.4% in dividend payout ratio in '23.



Total Shareholder Return Rate

- Our total shareholder return rate was one of the highest domestically and globally at 99% in '23 thanks to our consistent efforts to expand shareholder returns and increase dividend per share.
- We also cancelled 3.47 million shares, or 2.5% of total outstanding shares, in '23 to initiate an active share cancellation plan



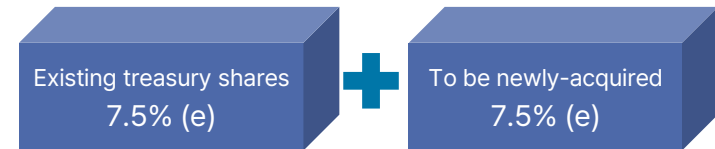
* Cancellation was on newly-acquired shares and the cancelled amount is not factored into the calculation for the Total Shareholder Return Rate

[Reference] New Mid-to-Long-Term Shareholder Return Plan ('24~'26)

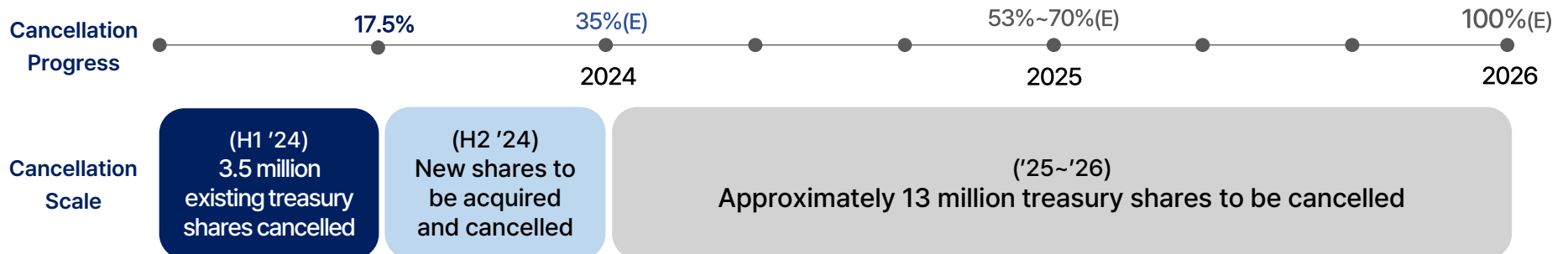
In November '23, the Company announced its New Mid-to-Long-Term Shareholder Return Plan ('24~'26) to further enhance shareholder value. The essence of the plan is to execute a share cancellation totaling 15% of the total issued shares on top of the approximately KRW 2.8 trillion cash return over three years. As a first step, 3.5 million shares (2.6% of total issued shares) were cancelled in February '24. We ask for our shareholders' continued support as we strive to faithfully fulfill our commitments to the market

Mid- to Long-Term Shareholder Return Plan ('24-'26) Announced

- Cash return of approximately KRW 2.8 trillion
- Share cancellation of approximately 15% (vs. total outstanding shares)



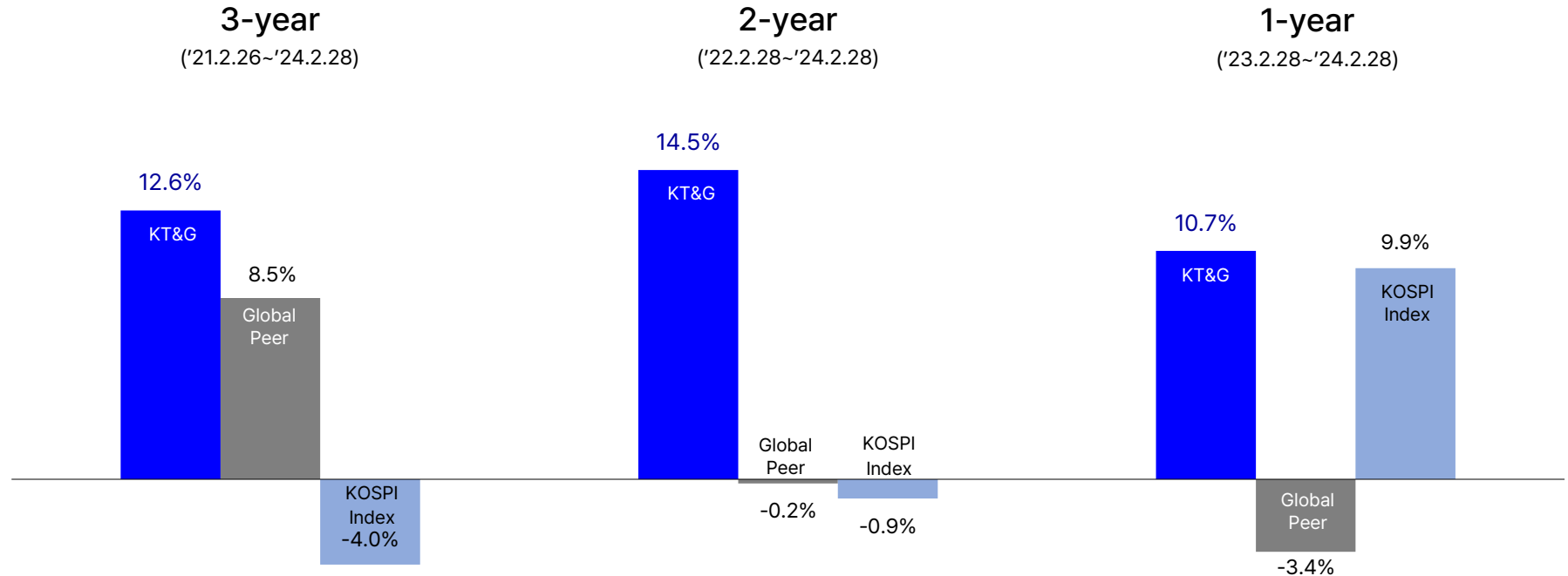
Active share cancellation plan of 15% of total outstanding shares



[Reference] TSR Performance

Thanks to the company's proactive shareholder return policy and the market's positive assessment of the growth potential of our core businesses, **our recent 3-year, 2-year, and 1-year TSRs have all exceeded the median of our Global Peers and the growth rate of the KOSPI index.**

Annualized Total Shareholder Return (TSR)



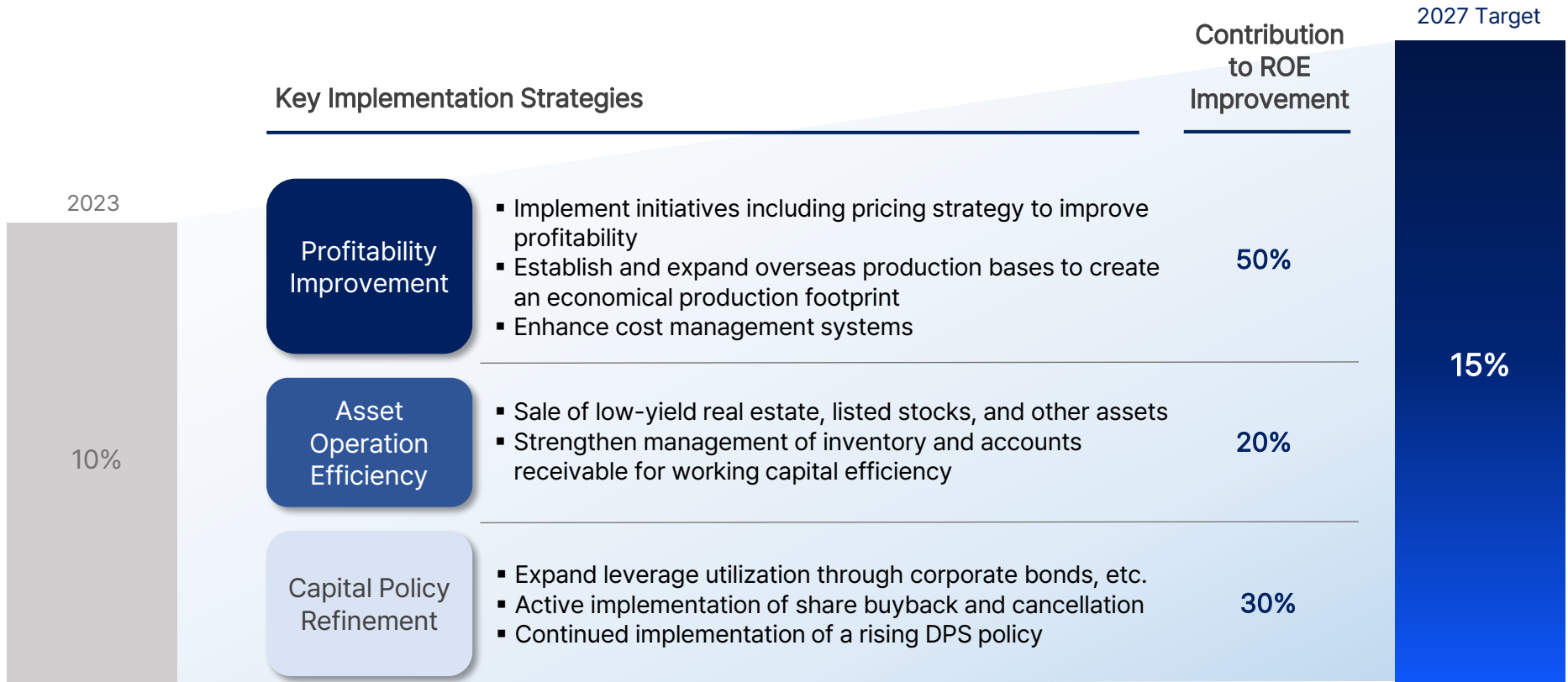
* As of : February 28, '24

* Global Peer: 5 Companies for comparison (PMI, BAT, JT, Altria, Imperial Brands)

[Reference] ROE Improvement Plan

KT&G has announced a **ROE target of 15% by 2027** to enhance corporate value. The Company will improve its ROE by prioritizing **business management focusing on profitability, efficient asset operation, and refining capital policies**.

ROE Enhancement Plan



02 Partial Amendments to the Articles of Incorporation

Considering the changing business environment, and to enhance governance practices and shareholder value, we propose to amend part of the Company's Articles of Incorporation and ask for shareholders' approval on all of the proposed amendments to the Articles of Incorporation.

Summary of the Changes

	Purpose	Key Changes	Amended Clauses
Item 2-1 Addition of Business Purposes	To establish and operate the Company's online mall	- Addition of e-commerce business, telecommunication sales, and telecommunication sales brokerage	Article 2
Item 2-2 Alignment of Provisions Including Incorporation of Certain Amendments to the Korean Commercial Code	To reflect amendments to related laws and regulations	- Alignment of regulations related to the dividend record date for new shares	Article 7-2, 7-3, 8, 14, 15
Item 2-3 Transfer of Authority to Recommend/Propose Dismissal of Inside Directors	To strengthen the role of the Board of Directors	- (Current) CEO/CEO candidate → (Amended) Board of Directors	Article 26
Item 2-4 Improvement of the Composition and Operation of the President Candidate Recommendation Committee	To improve independence in corporate governance	- Exclusion of the incumbent CEO from the committee composition (Current) Up to 6 outside directors + incumbent CEO → (Amended) Up to 6 outside directors - Extend the operation period due to change in timing of the formation (Current) Within 60 days prior → (Amended) Until 60 days prior	Article 32
Item 2-5 Improvement of the Composition of Committees within the Board of Directors	To improve independence in corporate governance	- Change in Audit Committee composition to 100% outside directors (Current) At least two-thirds outside directors → (Amended) All outside directors - Change in Independent Non-Executive Director Candidate Recommendation Committee composition to 100% outside directors (Current) Majority outside directors → (Amended) All outside directors	Article 34-3, 34-5
Item 2-6 Amendment Regarding the Dividend Record Date	To enhance shareholder value	- Change in dividend record date to allow shareholders to check dividends before investing (Current) End of each fiscal period → (Amended) Determined by Board resolution	Article 43

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Partial Amendments to the Articles of Incorporation (3/6)

Category	Before Amendments	After Amendments	Purpose of the Amendments
Article 2-2 : Alignment of Provisions Including Incorporation of Certain Amendments to the Korean Commercial Code (Continued)	Article 14 (Issuance of Convertible Bonds) (1)~(4) (omitted) (5) <u>For the purpose of any distribution of dividends on the shares issued upon conversion or any payment of interest, the provision of Article 8(5) of these Articles of Incorporation shall apply <i>mutatis mutandis</i>; provided, however, that for the purpose of any distribution of interim dividends on the shares issued upon conversion after the record date referred to in Article 43(3), the shares shall be deemed to have been issued immediately after such record date.</u>	Article 14 (Issuance of Convertible Bonds) (1)~(4) (to remain the same) (5) <u>If conversion takes place, the Company shall pay only the interest accrued and payable prior to conversion;</u> provided, however, that for the purpose of any distribution of interim dividends on the shares issued upon conversion after the record date referred to in Article 43(3), the shares shall be deemed to have been issued immediately after such record date.	To reflect the amendments to the Korean Commercial Code.
	Article 15 (Issuance of Bonds with Warrants) (1)~(4) (omitted) (5) <u>For the purpose of any distribution of dividends on the shares issued upon exercise of warrants or any payment of interest, the provision of Article 8(5) of these Articles of Incorporation shall apply <i>mutatis mutandis</i>; provided, however, that for the purpose of any distribution of interim dividends on the shares issued upon conversion after the record date referred to in Article 43(3), the shares shall be deemed to have been issued immediately after such record date.</u>	Article 15 (Issuance of Bonds with Warrants) (1)~(4) (to remain the same) (5) <Deleted>	

Partial Amendments to the Articles of Incorporation (4/6)

Category	Before Amendments	After Amendments	Purpose of the Amendments
Article 2-3 : Transfer of Authority to Recommend / Propose Dismissal of Inside Directors	<p>Article 26 (Election of the President and Directors)</p> <p>(1) (omitted)</p> <p>(2) Inside directors shall be elected at the Meeting among the persons <u>recommended by the President with consent of the Board of Directors</u>. In any of the following cases, <u>the President</u> may propose dismissal of an inside director to the Meeting <u>with consent of the Board of Directors</u>. In such case, the relevant inside director shall not participate in the resolution of the Board of Directors.</p> <p>(following cases omitted)</p> <p>(3) <u>Notwithstanding Paragraph (2) above, if a president candidate is recommended by the President Candidate Recommendation Committee, candidates for inside directors shall be recommended by such president candidate with consent of the Board of Directors. In such case, inside directors shall not participate in the resolution of the Board of Directors. However, if the president candidate fails to be elected as the President at the Meeting, those candidates for inside directors recommended by such president candidate shall no longer be eligible as candidates for inside directors.</u></p>	<p>Article 26 (Election of the President and Directors)</p> <p>(1) (to remain the same)</p> <p>(2) ----- ----- <u>recommended by the Board of Directors</u> ----- ----- <u>the Board of Directors</u> ----- ----- <u>with consent of the Board of Directors.</u> ----- ----- (to remain the same)</p> <p>(3) < Deleted ></p>	To sophisticate the inside director election process.
Article 2-4 : Improvement of the Composition and Operation of the President Candidate Recommendation Committee	<p>Article 32 (President Candidate Recommendation Committee)</p> <p>(1) The Company shall have the President Candidate Recommendation Committee, a non-standing committee in the Board of Directors, consisting of <u>seven (7) or less members in the following order</u> by a resolution of the Board of Directors. In such case, the President and the inside directors shall not participate in the resolution of the Board of Directors.</p>	<p>Article 32 (President Candidate Recommendation Committee)</p> <p>(1) ----- ----- ----- <u>six (6) or fewer independent non-executive directors</u> in the following order ----- ----- -----, <u>and a member of the President Candidate Recommendation Committee may not be a president candidate recommended by the President Candidate Recommendation Committee.</u> <following order deleted></p>	To strengthen the independence of the composition of the President Candidate Recommendation Committee.

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Partial Amendments to the Articles of Incorporation (6/6)

Category	Before Amendments	After Amendments	Purpose of the Amendments
Article 2-5 : Improvement of the Composition of Committees within the Board of Directors	Article 34-3 (Audit Committee) (1) The Audit Committee of the Company shall be composed of three (3) or more <u>directors and at least two thirds (2/3) of the members of the Audit Committee shall be elected from independent non-executive directors.</u>	Article 34-3 (Audit Committee) (1) _____ _____ independent non-executive directors.	To make consistent with current practice.
	34-5 (Independent Non-Executive Director Candidate Recommendation Committee) (1) The Independent Non-Executive Director Candidate Recommendation Committee shall be composed of three (3) or more <u>members, and at least one half (1/2) of the members of the Independent Non-Executive Director Candidate Recommendation Committee shall be the independent non-executive directors.</u>	34-5 (Independent Non-Executive Director Candidate Recommendation Committee) (1) _____ _____ independent non-executive directors.	To make consistent with current practice.
Article 2-6 : Amendment Regarding the Dividend Record Date	Article 43 (Dividends) (1)~(4) (omitted) (5) Dividends in Paragraph (1) above shall be paid to the shareholders or pledgees registered in the shareholders' registry as of <u>the last day of each fiscal year, and quarterly dividends in Paragraph (3) above shall be paid to the shareholders or pledgees registered in the shareholders' registry as of the Record Date for Quarterly Dividends; provided, however, that the interest on dividends or quarterly dividends shall not be paid.</u> (6) <Newly Established> (7) <Newly Established> <Newly Established>	Article 43 (Dividends) (1)~(4) (to remain the same) (5) _____ the record date determined by the Company by a resolution of the Board of Directors, and quarterly dividends in Paragraph (3) above shall be paid to the shareholders or pledgees registered in the shareholders' registry as of the Record Date for Quarterly Dividends; provided, however, that the interest on dividends or quarterly dividends shall not be paid. Upon the Company's determination of the record date, the Company shall make public notice of the record date, 2 weeks prior to the determined record date. (6) The dividends referenced in Paragraph (3) above shall be paid to the shareholders or pledgees registered in the shareholders' registry as of the record date for quarterly dividends. (7) The Company shall not pay any interest on dividends or quarterly dividends. ADDENDUM (2024.3.28) These Articles of Incorporation shall take effect from the date of the resolution of the general meeting of shareholders.	To reflect improvements to the dividend distribution process.

[Reference] Efforts to Strengthen Governance

KT&G Board has stipulated a more sophisticated governance structure including stronger role of the Board and strengthened independence led by outside directors into the Company's Articles of Incorporation

	Before	Improved	
Inside Director Recommendation	Recommendation by CEO/CEO candidate ↓ Board's consent ↓ Appointment at AGM	Recommendation by Board of Directors ↓ Appointment at AGM	Stronger BOD role
Proposal of Inside Director Dismissal	Proposal for dismissal by CEO ↓ Board's consent ↓ Resolution at AGM	Proposal for dismissal by Board of Directors ↓ Resolution at AGM	
President Candidate Recommendation Committee Composition	1. Up to 6 outside directors + 2. Incumbent CEO	Up to 6 outside directors	Stronger independence led by outside directors
Composition of Board Sub-committees	(Audit Committee) Outside directors to account for more than 2/3 of total composition (Independent Director Candidate Recommendation Committee) Outside directors to account for the majority of total composition	Both committees to be composed only of independent directors * Currently both composed of 100% independent directors	
Revised Dividend Record Date	Last day of the fiscal year (Dec 31) * Before decision on cash dividend	Record date determined by BOD resolution * After decision on cash dividend	Enhance shareholder value

03 Appointment of Two (2) Directors (cumulative voting requested by Agnes, etc.)

For seamless implementation of the Company's mid- to long-term vision and shareholder return plan, we ask **shareholders to vote for 'Item 3-1 : Kyung-Man Bang as President/Representative Director,' and 'Item 3-2 : Min-Kyu Lim as Outside Director.'*** This agenda item will be conducted through cumulative voting including for the CEO at the request of shareholders. It allows for votes to be distributed or concentrated appropriately to one or more individuals, with each shareholding being equivalent to twice the number of owned shares for voting purposes.

KT&G Board of Directors' Key Opinions

	Recommended by	KT&G BOD Recommendation	Summary of Board Opinion
Cumulative Voting	Item 3-1 Appointment of Kyung-Man Bang as President/Representative Director	KT&G President Candidate Recommendation Committee	FOR
	Item 3-2 Appointment of Min-Kyu Lim as Outside Director	KT&G Independent Non-Executive Director Candidate Recommendation Committee	FOR
	Item 3-3 Appointment of Dong-Hwan Shon as Outside Director	Shareholder Proposal (Industrial Bank of Korea)	AGAINST

* Item 3-4 Appointment of Sang-Hyun Lee as Outside Director (Shareholder Proposal_Agnes) → Abandoned as candidate withdrew himself from candidacy

Agenda Item 3-1
**President/
 Representative
 Director
 Candidate**
 (KT&G Board Proposal)



Name : Kyung-Man Bang

▪ Date of Birth	1971.01
▪ Gender	Male
▪ Classification	Representative Director Candidate
▪ Skills & Expertise	Senior Executive Leadership, Global Business, Customer Industries, etc.
▪ Appointment Type	New Appointment (Representative Director)
▪ Recommended by	KT&G President Candidate Recommendation Committee

Reasons for the Board's Recommendation of the Candidate

Based on his extensive experience and expertise across business segments including brand, marketing, global and strategy, Mr. Kyung-Man Bang played a leading role in establishing the Company's mid- to long-term growth strategies centered on the 3 core growth businesses (NGP, health functional foods and global CC) via growth investment and technological innovation and promoting its new shareholder return plan. As an executive inside director and COO, he has been in charge of the overall business of the Company.

'ESSE Change', which was launched during his term as the Head of the Brand Office, is currently the No. 1 brand in the domestic market and is evaluated to have provided an opportunity for the Company's rebound in the domestic market share. As the Chief of Global Headquarters, he spurred the overseas market by expanding the number of launched markets from about 40 to 100 countries by establishing a customized brand portfolio for each overseas market, which resulted in the achievement of over KRW 1 trillion in overseas sales revenue for the first time in the Company's history.

The candidate has demonstrated the capability to devise strategy based on superior analytical ability, which not only secured brand competitiveness in the domestic market, but also achieved tangible results in the global market, as well as for his performance through differentiated strategy and strong execution.

Accordingly, the KT&G President Candidate Recommendation Committee determined that Mr. Kyung-Man Bang is the best candidate to push KT&G's leap to a global top-tier company beyond the market limits based on his overall business insight.

Candidate's Competitiveness

1. Understanding of the Tobacco Business and Management Expertise

- Top expert in the tobacco business, having insights into not only the domestic and international cigarette business but also in the next-generation products (NGP) business, having served as Head of Brand Office, Chief of Global Headquarters, and Chief Business Officer at KT&G
- Demonstrated management expertise by creating unprecedented business results based on innovation and speed during each tenure, proven by receiving personal awards from the government (including Prime Minister's Award)

2. Capability to Drive New Businesses and Global Expertise

- After serving as Chief Business Officer, designed a close collaborative system across divisions to discover new products/markets/businesses, achieving results in new business initiatives such as the domestic and international success of NGP, global growth of KGC, business transformation in pharmaceuticals/cosmetics, and investments in future-oriented start-ups like AI
- As the company's first Global Chief of CIC (in charge of independent decision-making), broke the mold of domestic-centered business by leading market analysis from an innovative perspective and aggressively pioneering new markets, establishing the foundation for global corporate growth

3. Business Acumen, Strategic Thinking

- Identified the emergence of environmental issues as a business opportunity, deciding in a timely manner the development and commercialization of eco-friendly materials for core cigarette components, leading production collaboration with domestic conglomerates and sales collaboration with global competitors, showcasing business acumen
- Led the growth strategy of KT&G's 3 core growth businesses by expanding direct overseas operations (global CC), strengthening partnerships (global NGP), and establishing local end-to-end value chains (international HFF) to overcome growth limitations due to regulatory environments and market stagnation

4. Stakeholder Communication and Management Skills

- As COO and an Executive Director, formed developmental/long-term partnerships based on trust with major domestic and international partners, in addition to direct communication with the capital market

5. High Level of Morality, Ethical Consciousness

- Not a single case of involvement in scandals including vested interests or solicitation
- Thoroughly practiced the company's management philosophy by establishing and announcing the group's ethical charter

[Reference] CEO Candidate's Major Career and Achievements

The KT&G President Candidate Recommendation Committee, through numerous evaluations and in-depth interviews, assessed Mr. Kyung-Man Bang's (incumbent COO & CFO) management philosophy and capabilities. As a result, Mr. Bang was deemed **the most suitable candidate to lead KT&G's leap to a Global Top-Tier company**, based on his insightful understanding of the business and ability to transcend market limitations. His decision to strengthen shareholder returns during this term as CFO is also **well-received by the capital market**.

Tenure	Positions Held	Major Achievements
2013 ~ 2015	Head of Brand Office	<ul style="list-style-type: none"> Developed and launched Korea's leading brand (ESSE Change), establishing a dominant competitive edge in the domestic market.
2015 ~ 2020	Chief of Global Headquarters (CIC)	<ul style="list-style-type: none"> Grew the global CC business into a trillion-won business portfolio Expanded the number of countries launched from 43 in 2014 to 103 by 2020
2021 ~ Present	Chief Business Officer, COO and CFO	<ul style="list-style-type: none"> Implemented the global business strategy focusing on the 3 core growth businesses (Achieved record-high sales in 2023 for the global CC business and executed a long-term NGP supply agreement with PMI, the world's leading tobacco company) Maximized shareholder value through new shareholder return policies including a constantly expanding dividend policy, share buyback and cancellation Honored with the '6th Accounting Day Prime Minister's Award' as a result of establishing the best financial audit environment both internally and externally to enhance accounting transparency

Improved Profitability in 3 Core Growth Businesses

- Revenue growth and profit improvement via establishment and execution of growth strategy focusing on NGP, global CC and HFF (**profits grew 19%** since appointment as CBO in March '21)

* Global CC & Global NGP OP grew by 56%

Increase in Share Price

- Share price **grew 13%** since appointment as CBO in March '21 as shareholder returns and growth potential profitability was enhanced in core growth businesses
- * KOSPI fell 13% in the same period

Positive Feedback from the Capital Market

Morgan Stanley ('24.2.23)

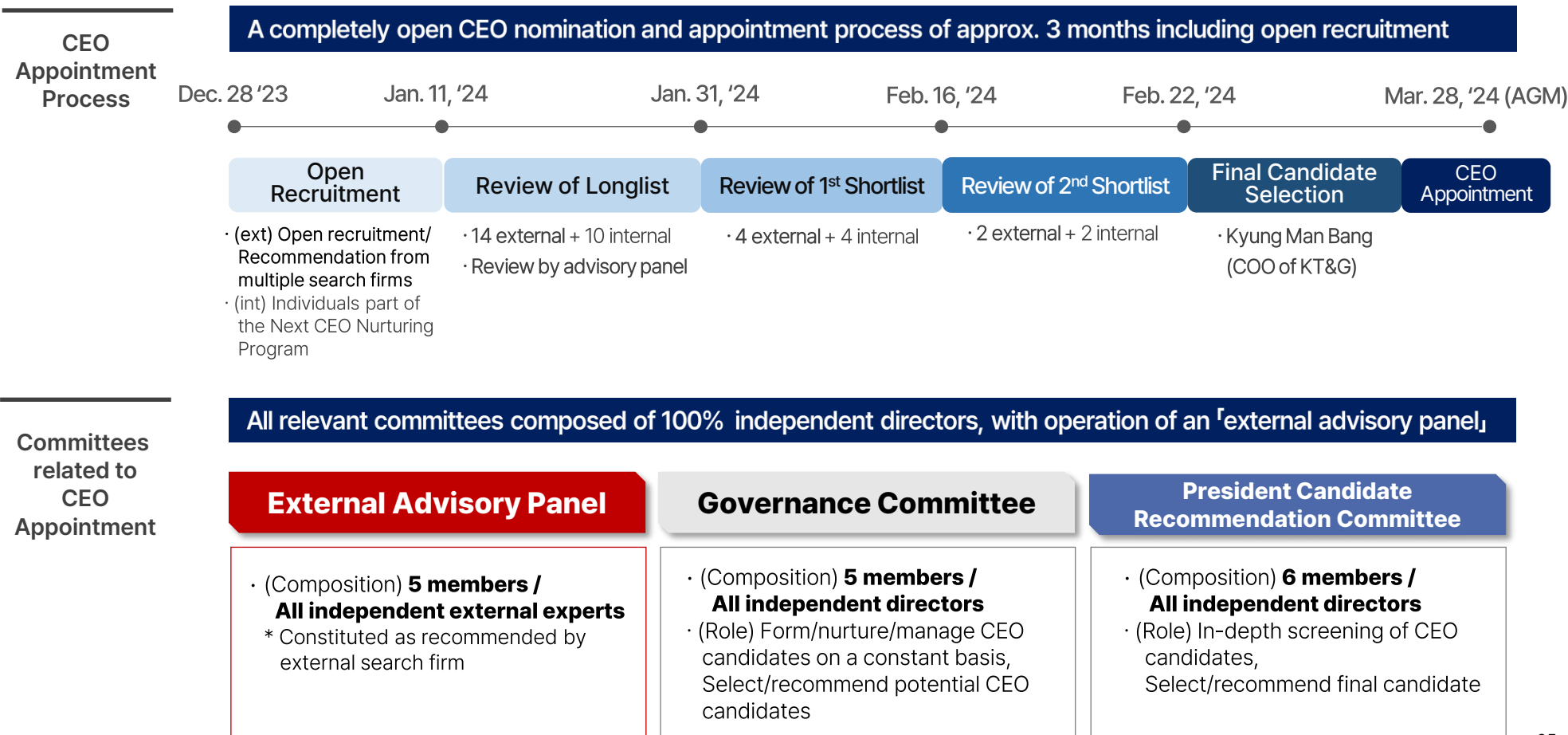
- Candidate Kyung-Man Bang has been proactive in investor relations activities
- Has reflected investors' feedback in the shareholder return policy
- The recommendation of candidate Bang Kyung-man appears **positive**

Meritz Securities ('24.2.26)

- The appointment of Kyung-Man Bang as CEO is **positive** in that it will strengthen and sustain KT&G's growth strategy and shareholder return policy
- Ensures the continuity and visibility of policies aimed at enhancing both corporate and shareholder value

[Reference] President (CEO) Candidate Recommendation Process

To ensure fairness and independence, **all related committees were composed and operated entirely of outside directors, a fully open selection process** involving open recruitment and recommendations from multiple search firms was initiated, resulting in **a pool of 24 internal and external candidates**. Then, a transparent and fair deliberation process took place for 2 months, taking into account **the impartial inputs from the external advisory panel**



Agenda Item 3-2
**Outside Director
 Candidate**
 (KT&G Board Proposal)



Name : Min-Kyu Lim

- Date of Birth 1955.04
- Gender Male
- Classification Outside Director
- Skills & Expertise Manufacturing/ Supply Chain, Sustainability, etc.
- Appointment Type Reappointment
- Recommended by KT&G Independent Non-Executive Director Candidate Recommendation Committee

Reasons for the Board's Recommendation of the Candidate

1. Leadership and organization management ability

Mr. Min-Kyu Lim has experience in successfully leading sizable listed companies while serving as the President of OCI Materials (2013-2016) and President of SK Materials (2016-2017).

2. Extensive expertise in environmental and safety management

During his time as the President of OCI Materials, Mr. Min-Kyu Lim implemented OCI Materials' environmental safety system and manual, gaining experience in dramatically reducing the number of environmental and safety-related accidents. In addition, while in office, he has continuously focused on environmental safety, such as soil and groundwater pollution, to improve environmental safety conditions. As a result of the above efforts, Mr. Min-Kyu Lim has gained extensive expertise in environmental and safety management, including winning the 15th Korea Safety Award and the Minister of National Safety and Security Award.

3. Understanding of supply chains and overseas markets

While serving as the Head of Samsung C&T's Petrochemical Business Division (2003-2007), Mr. Min-Kyu Lim gained experience in successfully managing the petrochemical supply chain based on his understanding of the global commodity supply chain, which operates 10 million tons of goods transported per year. In addition, during his time as the Head of OCI Renewable Energy's Business Division (2009-2013), he gained experience in general investment, manufacture and sales of polysilicon products. He also participated in the expansion of overseas market business by serving as the Assistant Managing Director of the Paris Branch of Samsung C&T's Commercial Division (1998-2003) and Head of the Overseas Business Team of Seoul Commtech (2007-2009). While serving as Assistant Managing Director of the Paris Branch of Samsung C&T, he gained experience in working with employees dispatched from headquarters and local employees to grow annual sales dramatically.

4. Having a sense of ethics and responsibility for the performance of duties

The candidate is considered to have a high level of ethics and responsibility, as shown by his emphasis on corporate social responsibility and active promotion of related activities. He has engaged in various social contribution activities, including donating to the local community and supporting the payment of scholarships to teenagers and children from low-income families, to help the Company and the local community grow together.

5. Independence as an outside director

In addition to the expertise described above, Mr. Min-Kyu Lim meets all the statutory qualifications for enhancing the independence of outside directors under the Korean Commercial Code. When applying the legally defined criteria for independence, he is considered to be in an independent position with no direct, indirect or friendly relations with any major shareholders or the management. Appointing such an independent candidate as an outside director is expected to enable strict management and supervision of the executive team and to advise the management in a direction that can enhance corporate value. Therefore, we, the Independent Non-Executive Director Candidate Recommendation Committee, recommend him as a candidate for outside director.

KT&G has set a precedent in corporate governance in Korea by **implementing the Board Skills Matrix (BSM) in 2022**, and recently updated its required skill set **reflecting the company's mid- to long-term strategies and global standards**. In a commitment to continuous improvement, we will continue to review the BSM every two years, incorporating opinions from the capital market to strengthen the expertise and capabilities of the Board.

Before (11 skills)	After (8 skills)	Description
Leadership Business Operation	Senior Executive Leadership	Directors with leadership abilities are pivotal for large-scale entities and government organizations. Their adeptness in steering the strategic course, improving productivity, managing human resources, structuring compensation, mitigating risks, and identifying growth opportunities is invaluable. In the context of KT&G, a publicly traded company with extensive operations with a substantial workforce and a significant holding ratio of foreign investors, the role of directors who possess a proven track record in organizational leadership cannot be overstated.
Manufacturing Supply chain	Manufacturing/ Supply chain	Directors with specialized knowledge in refining operational processes and enhancing efficiency across product manufacturing and distribution play a crucial role in boosting the company's production capabilities and optimizing supply chain logistics. At KT&G, our strategic vision targets mid- to long-term goals, which encompass: (i) broadening our global manufacturing base to fortify the Next-Generation Products (NGP) business, (ii) leveraging the distribution networks of our international subsidiaries to propel growth in the health functional food segment, and (iii) promoting the localization of production to facilitate the global expansion of the conventional cigarette (CC) business.
Finance/ Accounting	Finance/ Accounting	Directors possessing expertise in finance and accounting play a pivotal role in safeguarding the financial well-being of our company. Their proficiency in financial reporting, judicious capital allocation, and strategic policy formulation is imperative. They are responsible for scrutinizing and endorsing the company's financial statements and operational reports, making informed decisions on capital allocation, ensuring the integrity of internal accounting practices, and overseeing the financial disclosure standards. The critical tasks of objectively assessing the company's financial performance, managing a prudent debt ratio, and guaranteeing accuracy and comprehensiveness of financial disclosures are fundamental to providing transparent and reliable information to both the company and its investors.
Risk Management	Risk Management	Directors with specialized skills in identifying and mitigating operational risks are crucial to KT&G's strategic risk management, especially considering tighter industrial safety regulations, such as South Korea's Serious Accidents Punishment Act. Their expertise is increasingly important in the tobacco industry, which faces the dual challenges of shifting consumer behaviors and a dynamic regulatory environment. These directors' ability to proactively navigate complex risks ensures KT&G's sustainable growth and resilience, keeping the company adeptly positioned to respond to market and regulatory changes.
M&A Global Business	Global Business	Directors with experience and understanding of various economic landscapes, cultural dynamics, and regulatory frameworks is essential to the international diversification and revenue growth of KT&G. Their experience is particularly valuable as the Company strategically accelerates the global outreach of its NGP, CC, and HFF businesses. As we persistently seek to elevate the proportion of revenue derived from global operations, the insight and guidance from directors with global business practices become increasingly important.
ESG Strategy	Sustainability	Directors with experience and specialization in sustainable management can support the company's sustainable growth. Their expertise is not only crucial for identifying and supervising risks and prospects related to ESG criteria but also for aligning with the escalating investor demand for sustainable practices. As regulatory frameworks for sustainability disclosures continue to evolve both locally and globally, the corporation places significant value on directors equipped with such specialized knowledge. In response to this paradigm, the Company has integrated sustainability expertise as a fundamental criterion in our assessment of director candidates.
Marketing/ PR/ Consumer	Consumer Industries	Directors with a wealth of experience and expertise in the consumer goods sector, particularly in expanding market share and brand awareness through strategic marketing, managing corporate image, and consumer engagement, can significantly contribute to a company's ability to forecast market trends and drive revenue growth. KT&G, which specializes NGP, CC, and health supplements, operates within this consumer goods domain. The anticipation of demand fluctuations, proactive responses, and the establishment of a strong brand image through effective marketing are crucial for success. KT&G appoints directors who have a high level of understanding of the consumer goods industry and possess related expertise in areas such as marketing, based on its own evaluation criteria.
Legal/Regulatory	Legal/ Regulatory	The tobacco industry, in which KT&G operates, is significantly influenced by government regulations, including tax-related laws. Directors with expertise in these legal and regulatory frameworks are invaluable for identifying and understanding key regulatory issues, ensuring the company's compliance. Consequently, KT&G places a high emphasis on evaluating candidates' proficiency in industry-specific legislation and regulations in appointing directors.

[Reference] KT&G Board of Directors BSM and Required Competencies

The board has refined the Board Skills Matrix (BSM) to reflect the mid- to long-term strategic direction centered on the organic growth of the three core growth businesses and global standards, and analyzed the competencies required for the board in 2024. As a result, there is a need to appoint outside directors with expertise in Manufacturing/Supply Chain, Sustainability, and Legal/Regulatory areas.

Experience/Expertise	Myung-Chul Kim	Yoon-Sung Koh	Kwan-Soo Shon	Jee-Hee Lee	Required Experience/Expertise Linked to KT&G's Mid- to Long-Term Business Strategy:	Board Recommendation		
						Kyung-Man Bang (CEO)	Min-Kyu Lim (Re-election)	Sang-Wook Kwak (New Appointment)
Senior Executive Leadership (6/7)	●		●	●	● (President/CEO)	★	●	●
Manufacturing/Supply chain (2/7)			● (Logistics)		● (Expansion of global production bases/cost innovation)		★	
Finance/Accounting (3/7)	●	●				●		
Risk Management (4/7)	●		●			●	●	
Global Business (5/7)	●		●	●		★	●	
Sustainability (3/7)				● (D&I)	● (Response to environmental /safety and health issues)	●	★	
Consumer Industries (3/7)			●	●		★		
Legal/Regulatory (2/7)		● (Tax regulations)			● (Legal risk management)			★
Board Independence (86%)	●	●	●	●			●	●
Gender Diversity (Female 14%)	M	M	M	F		M	M	M

★: Top Skills/Expertise

Outside Director Appointment Process

Fair and impartial outside director recommendation process based on the BSM that involves recommendations from multiple external expert agencies and an external advisory panel

The process follows a timeline with key dates and steps:

- Jan. 11, '24:** Form Recommendation Committee
- Jan. 17, '24:** Sophisticated the BSM, Selected search firm for candidate/advisory panel search
 - 19 days of searching (Jan 18 ~ Feb 5)
- Feb. 6, '24:** Review on longlist (12 ppl), Advisory panel formed
 - Review by Advisory Panel (Feb 7 ~ 15)
- Feb. 16, '24:** Shortlist Selection (4 ppl)
 - Cross screening by search firm on shortlisted individuals (Feb 17 ~ 22)
- Feb. 23, '24:** Final Candidate Selection
 - Recommended Min-Kyu Lim as Outside Director
 - Recommended Sang-Wook Kwak as Outside Director/Audit Committee member
- Mar. 28, '24 (AGM):** Appoint-ment

Agenda Item 3-3
**Outside Director
 Candidate**
 (Shareholder Proposal by
 Industrial Bank of Korea)

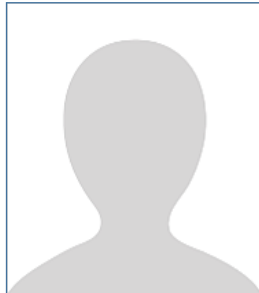


Name : Dong-Hwan Shon

- Date of Birth 1973.11
- Gender Male
- Classification Outside Director
- Skills & Expertise Law/Regulatory
- Appointment Type New Appointment
- Recommended by Shareholder Proposal
(Industrial Bank of Korea)

- Please note that there are no Reasons for Board's Recommendation for this candidate because he was recommended by shareholder proposal.
- The proposing shareholder, Industrial Bank of Korea, held 9,510,485 shares (representing 8.43% of the total issued shares with voting rights) as of the end of 2023, making it the company's largest shareholder
- The Industrial Bank of Korea's largest shareholder is the Ministry of Economy and Finance, holding 59.5% of its shares (based on the semi-annual report disclosure in 2023)

Agenda Item 3-4
**Outside Director
 Candidate**
 (Shareholder Proposal
 by Agnes)
**⇒ Abandoned due to
 candidate withdrawal**



Name : Sang-Hyun Lee

- Date of Birth 1973.08
- Gender Male
- Classification Outside Director
- Skills & Expertise Investment, Consulting
- Appointment Type New Appointment
- Recommended by Shareholder Proposal (Agnes)

- The proposing shareholder, Agnes, held 606,455 shares (representing 0.54% of the total issued shares with voting rights) as of the end of 2023, and has nominated himself, the representative of Agnes, as an outside director candidate. **However, agenda item 3-4 has been abandoned as candidate Sang-Hyun Lee withdrew himself from candidacy.**

04 Appointment of Outside Director Who Will Also Serve as an Audit Committee Member (Sang-Wook Kwak)

KT&G BOD asks shareholders to **vote for** candidate Sang-Wook Kwak, who has **outstanding expertise in the Legal/Regulatory field based on an extensive career serving as an audit committee member in major corporations**, over 26 years as a prosecutor and over 4 years as an auditor at the Board of Audit and Inspection

Agenda Item 4

Outside Director/ Audit Committee Member Candidate

(KT&G Board Proposal)



Name : Sang-Wook Kwak

- Date of Birth 1959.03
- Gender Male
- Classification Outside Director
- Skills & Expertise Senior Executive Leadership
Legal/Regulatory
- Re-appointment No
- Recommended by Independent Non-Executive Director
Candidate Recommendation Committee

Reasons for the Board's Recommendation of the Candidate

1. Leadership and organization management ability

Mr. Sang-Wook Kwak has a long history (**over 26 years**) of serving as a prosecutor, during which time he held key positions such as Chief Prosecutor of the Seoul Western District Prosecutors' Office (2009-2010), Chief Prosecutor of the Busan District Prosecutors' Office (2010-2011), and Chief of the Criminal Department at the Supreme Prosecutors' Office of the Republic of Korea (2011-2016), successfully leading the prosecutors' office. Mr. Sang-Wook Kwak is recognized for his leadership based on thorough self-discipline and humility, enjoying deep trust among his peers and subordinates, and is thought to have exceptional organizational management skills.

2. Extensive expertise in auditing tasks and legal framework

During his tenure as a prosecutor, Mr. Sang-Wook Kwak took charge of and successfully conducted important investigations into public office corruption and other matters. In addition, while serving as an Inspection Commissioner at the Board of Audit and Inspection **for more than 4 years**, he was responsible for audits in various fields, including the management improvement of public institutions, management status of public enterprises and corporations, and cyber security management. Through these audits, he established the appropriate direction for management control and governance of each institution and possesses expertise in regulatory compliance for organizations.

3. Having a sense of ethics and responsibility for the performance of duties

Mr. Sang-Wook Kwak is regarded as a talent with a high level of ethical consciousness and responsibility, and has diligently fulfilled his duties over many years in the prosecution service and the Board of Audit and Inspection.

4. Independence as an outside director

In addition to the expertise described above, Mr. Sang-Wook Kwak meets all the statutory qualifications for enhancing the independence of outside directors under the Korean Commercial Code. When applying the legally defined criteria for independence, he is considered to be in an independent position with no direct, indirect or friendly relations with any major shareholders or the management. Appointing such an independent candidate as an outside director is expected to enable strict management and supervision of the executive team and to advise the management in a direction that can enhance corporate value. Therefore, we, the Outside Director Candidate Recommendation Committee, recommend him as a candidate for outside director/audit committee member.

05 Approval of Cap on Remunerations for Directors

We ask for shareholders' **approval of the cap amount on remuneration for directors** pursuant to Article 388 of the Korean Commercial Code and Article 30 of the Company's Articles of Incorporation.

Remuneration Cap for Directors in 2024

(unit : KRW million)

Remuneration Cap		5,000
Number of Director		7
	Inside Director	1
	Outside Director	6

* The Remuneration Cap for Directors in 2024 above **includes the long-term incentives for the recent 3 years ('21~'23) to be paid to the incumbent CEO, who's tenure expires in March, 2024**

* Taking this into account, **the actual payout versus remuneration cap for 2024 is expected to reach near 100%**

* So, we seek for **approval on the Remuneration Cap for 2024 to be the same as the previous year**

Remuneration Cap for Directors & Actual Payout in 2023

(unit : KRW million)

Remuneration Cap		5,000			
Total Payout (A + B)		3,050			
Inside Director (A)		Basic Salary	Bonus	Others	Total
	Bok-In Baek (CEO)	600.0	1,074.9	2.6	1,677.4
	Kyung-Man Bang (Inside Director)	409.8	377.9	3.1	790.8
Outside Director (B)	Min-Kyu Lim and other 5 Outside Directors				582.1

[Reference] Enhancement of the Executive Compensation Structure

The Compensation and Evaluation Committee, composed entirely of outside directors, resolved to sophisticate the executive compensation structure by **significantly increasing the proportion of stocks in executive compensation** and **introducing the Restricted Stock Unit (RSU) reward system** to strengthen the link between management evaluation/compensation and shareholder value and promote responsible management.

Higher
compensation
in stocks

Short-term performance stock compensation and increased proportion of long-term performance stock compensation to strengthen link between executive compensation and shareholder value and enhance motivation for performance creation

		Before	After Improvement
Long-term Incentives (LTI)	CEO	30% of LTI	60% of LTI
	Inside Director	N/A	40% of LTI
Short-term Incentives (STI)	CEO/Inside Director/ Executive Management	N/A	10% of STI

Restricted
Stock Unit
System
Implemented


Introduced the RSU system to reinforce long-term responsible management through linkage of compensation with long-term performance

(Previous) Performance-linked Stock Compensation

Immediate compensation in stocks depending on the degree of target achievement over a certain period



(Improved) Restricted Stock Compensation

The stock will have a vesting period, and **ownership is transferred after conditions are met over a specified period**
 **Staggered compensation over 3 years**

PART 2.

Investor FAQs

1. Matters related to the Filing of Derivative Lawsuit
2. Matters related to the Comprehensive Cumulative Voting

01 Matters related to the Filing of Derivative Lawsuit

KT&G's Board of Directors and the Audit Committee commissioned an objective **investigation by external legal experts** regarding FCP's claim for a derivative lawsuit to seek damages. Following the investigation, it was concluded that there was **low likelihood of a breach of duty of care (embezzlement) in the disposal of treasury shares by the management and the Board of Directors**. Based on this conclusion, it was **decided not to pursue litigation**, and this decision was communicated accordingly

Progress of Claim Processing

- Jan. 15, '24 ● **Receipt of FCP's official lawsuit initiation claim**
(Recipient: Audit Committee Chair)
 - Jan. 15, '24 ● **KT&G's Audit Committee sends a response to FCP (1st)**
 - Notifying receipt of document and future plans
 - Jan. 19, '24 ● **KT&G's Audit Committee meeting (1st)**
 - Resolution of 「Review Plan of the Lawsuit Claim」
 - Appointed external legal expert for investigation
- Investigation by external legal experts**
- Feb. 6, '24 ● **KT&G's Audit Committee meeting (2nd)**
 - External expert reports 「Opinion on the Lawsuit Claim」
 - Audit Committee, 「Resolution on whether to file a derivative suit」 passed
 - Feb. 7, '24 ● **KT&G's Audit Committee meeting (3rd round)**
 - External expert reports 「Opinion on the Lawsuit Claim」
 - Audit Committee, 「Resolution on whether to file a derivative suit」 passed
 - Feb. 7, '24 ● **KT&G's Board sends response to FCP regarding lawsuit initiation claim (2nd)**
 - Results of the legal expert's investigation and review opinion
 - Notifying decision not to initiate lawsuit by the Audit Committee and the Board of Directors

Review Results from External Legal Experts

01

The disposal of treasury shares can be seen as being made for purpose of public interest, hence the decision is considered to be based on reasonable business necessity

- The purpose of fulfilling corporate social responsibility by promoting public interest through the Scholarship Foundation is acknowledged
- The purpose of the Public Enterprise/Mutual Aid Association Employee Welfare Fund to ensure stability and welfare of workers from small-scale cooperative companies and promote mutual growth, is acknowledged

02

The scale of the contribution does not appear to be excessive considering the public interest or business purposes, or considering the company's financial status

03

The primary objective of the disposal of treasury shares cannot be seen as maintaining management control

- It is difficult to see there was necessity to entrench management or to protect against management disputes at the time of contribution
- The exclusion of this shareholding in question would not have changed the outcome of the shareholders' meeting

04

All procedures required by law, such as public disclosures, and accounting procedures according to accounting standards have been complied with in the execution

Allegations by FCP(Agnes)

KT&G has been concealing the shareholding of foundations, and caused losses of 1 trillion Won by donating treasury shares to non-profit foundations which have been used as friendly shares to entrench management

Facts and Company's View

KT&G has disclosed in **172 occasions** the disposal of treasury shares and the shareholding by foundations. **Over 90% of the contributed treasury shares** were to the Employee Stock Ownership Association and Employee Welfare Funds, the majority of which were either personal paid-subscription of shares by each individual employee or payout of incentives for excess profits and benefits in the form of shares and not **free donations**. Especially, the **voting of the shares disposed to the Employee Stock Ownership Association (4.43%) are placed independently by each individual employee**. Also, **shares contributed to public foundations (0.87% voting right) has no relation to management entrenchment** as they were part of **KT&G's initiative to fulfill corporate social responsibility**.

The Company has been duly fulfilling duties for disclosure and transparently communicating with shareholders and the market

- From 2002 to 2019, 21 instances (24 instances based on the disposal party) of treasury share disposals were individually disclosed in a total of 66 publications
- In addition, to date, regular disclosures have been conducted through semi/annual business reports (92 instances) and Fair-Trade Commission's reports on large corporate groups (14 instances), totaling 106 disclosures.

Over 90% were not free donations, and has no relation to entrenchment as voting rights are exercised independently

	# of shares contributed	Contribution period	Purpose of contribution	% voting rights*	Voting by	Reference
Employee Stock Ownership Association	5,004,367	2003~2007	- Paid subscription by employees / payment of excess profits	4.43%	Individual employees	
Employee Welfare Fund	4,360,000	2002~2010	- Benefits for employees achieving excess performance	3.86%	Resolution Passed by a 2/3 Majority in a Labor-Management Parity Council	
Public Enterprise Employee Welfare Fund	421,466	2015~2019	- Securing funds for improvement of benefits for employees of partner companies for mutual growth	0.37%	Company-unrelated council (no special relations as per fair trade act)	Tax benefits for mutual growth
Mutual Aid Association Employee Welfare Fund	71,108	2015~2019		0.06%	Company-unrelated council (no special relations as per fair trade act)	
Welfare Foundation	255,000	2003	- Supporting the standing of non-profit organizations as corporate social responsibility	0.22%	Foundations' Board (over 25% appointed by governing authority)	Gangnam-gu Office provides oversight of the foundation as governing authority
Scholarship Foundation	738,546	2010~2016		0.65%	Foundation's Board (Appointment of directors require approval by governing authority)	Seoul Office of Education provides oversight of the foundation
Total	10,850,490					

* Based on total outstanding shares with voting rights as of end-Dec, '23

02 Matters related to the Combined Cumulative Voting

Shareholders, including Agnes (FCP), have 'requested for a combined cumulative voting for the appointment of inside directors, including the CEO, and outside directors', and KT&G proposed the agenda item to conduct the combined cumulative voting for the appointment of the CEO along with other directors, to protect minority shareholder rights. However, due to the shareholders' request led by Agnes, in the uncertain business environment where the appointment of the CEO is decided by combined cumulative voting, support for the agenda proposed by the KT&G Board of Directors is of utmost importance to prevent unnecessary management confusion and to protect corporate and shareholder value

Progress of the Combined Cumulative Voting Request

Requested by Agnes, etc.*

Combined cumulative voting without distinction between outside and insider directors

- Requested that the convocation notice of the AGM specifies the number of directors to be appointed through cumulative voting for "the appointment of ● directors" without distinguishing between independent and inside directors

KT&G BOD Decision

Proposed AGM agenda item of appointing directors including CEO via combined cumulative voting

- Item 3 : Appointment of Two (2) Directors (cumulative voting requested by Agnes, etc.)
 - Item 3-1 : Appointment of Kyung-Man Bang as President/ Representative Director (KT&G BOD)
 - Item 3-2: Appointment of Min-Kyu Lim as Outside Director (KT&G BOD)
 - Item 3-3: Appointment of Dong-Hwan Shon as Outside Director (Shareholder Proposal by Industrial Bank of Korea)
 - Item 3-4: Appointment of Sang-Hyun Lee as Outside Director (Shareholder Proposal by AGNES)
 - ➔ Abandoned as candidate Sang-Hyun Lee withdrew himself from candidacy

Cumulative Voting Method and Board Opinion

Voting Method

Voting rights equivalent 「number of shares held x 2」 granted for voting purposes

The granted voting rights can be concentrated on one candidate or distributed among multiple candidates

- There are three director candidates (items 3-1 to 3-3), and votes can be concentrated on one candidate or distributed among multiple candidates.

Appointment Method

Top 2 candidates with the most votes are appointed as directors

- The appointment decision will be made based on the combined votes for the three candidates, without separating the CEO from the independent directors

KT&G BOD View

Combined cumulative voting including CEO was decided to protect minority shareholder rights.

However, this causes uncertainties to the business environment where the CEO appointment is decided based on cumulative voting.

Shareholders' votes for the CEO appointment is of utmost importance in preventing unnecessary business confusion and damages to corporate and shareholder value.

The Board also asks for shareholders to vote for KT&G BOD-recommended candidates for outside director appointment who possess the necessary competencies for KT&G in the BSM.³⁷

